



1999

IMPORTANT

**This Packet Contains Your
Sub-Chapter S Corporation Income Tax
Instructions and Returns**

*PLEASE READ INSIDE THIS COVER
IMPORTANT REMINDERS FOR 1999*

130-02-01

State of Arkansas
State Income Tax
P.O. Box 3628
Little Rock, Arkansas 72203-3628

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STATE OF ARKANSAS

*PEEL OFF THE LABEL TO THE RIGHT AND PLACE IT IN THE ADDRESS AREA
OF THE FORM AR1100S YOU FILE.
MAKE ANY NECESSARY CORRECTIONS.*



STATE OF ARKANSAS

Subchapter S Corporation Returns and Instructions

General Information

Qualifying corporations may select to be treated as a "Small Business (S) corporation" for Arkansas income tax purposes. The election may be made only if the corporation meets all of the following tests:

1. It is treated as a Small Business Corporation with the Federal Government.
2. It has no more than seventy-five (75) stockholders. A husband and wife (and their estates) are treated as one shareholder for this requirement. All other persons are treated as separate shareholders.
3. It must be a corporation organized or created under the laws of the United States or a state or territory or it is a similar association taxes as a corporation.
4. Its shareholders are individuals, estates and certain trusts described in IRC 1361
5. It has no nonresident alien shareholders.
6. It has only one class of stock.
7. It is not an ineligible corporation as defined in IRC 1361.

TO BE RECOGNIZED AS AN ARKANSAS S-CORPORATION

The following must be completed:

1. Incorporate the business with the Arkansas Secretary of State. (501) 682-1010.
 2. File with the Internal Revenue Service an Election by Small Business Form (2553) and apply for a Federal Identification Number (SS-4). (1-800-829-3676)
 3. File with the State of Arkansas an Election by Small Business Form (AR1103) 682-7284.
- For an election to be valid. All persons who are shareholders of the corporation on the first day of the corporation's taxable year or on the day of the election whichever is later, must consent to such election. The Arkansas election form is AR1103.

The election is to be filed with the:
DEPARTMENT OF FINANCE AND ADMINISTRATION
INDIVIDUAL INCOME TAX / S CORP
P. O. BOX 3628
LITTLE ROCK, AR 72203-3628

The annual income tax return of a small business corporation is be submitted on Form AR1100S. A "Small Business" election permits the taxable income of the small business corporation to be taxed to the shareholders rather than the corporation. All resident and nonresident shareholders of S Corporations doing business in Arkansas must file a properly executed Arkansas Income Tax Return with the Department of Finance and Administration. Arkansas Income Tax must be paid on the shareholders taxable income. **Failure to report and remit on the part of any shareholder shall be grounds upon which the Director shall be authorized to revoke the corporations Subchapter S election and collect the tax from the corporation by any manner authorized by the Arkansas Income Tax Act of 1929 (as amended).**

Important Information for 1999

1. Subchapter S of the Federal Internal Revenue code of 1986, as amended, and in effect as of January 1, 1999 has been adopted under Arkansas income tax law, Act 1126 of 1999.
2. If the corporation is the parent of one or more Qualified Subchapter S Subsidiaries (QSSS), the Arkansas Subchapter S election, Form AR1103, must be accompanied by Federal Form 966 for each subsidiary that will be filing with the corporation.
3. Small Business Entity Pass Through Act (Act 1003 of 1993).

A Limited Liability Company is a hybrid business entity with characteristics of a Sub S Corporation and a limited partnership. The members of a Limited Liability Company are shareholders in that they have no personal liability for the debts of the Limited Liability Company. A Limited Liability Company if required to file a partnership tax Form AR1050.

Act 479 of 1997 amends State law concerning limited liability companies (LLC), the Uniform Partnership Act, and the Revised Limited Partnership Act to allow mergers and consolidations between LLC's corporations and partnerships. Currently, partnerships are not included in the merger provisions. The franchise tax provisions are amended to apply to LLC's.

2. Privately Designed Tax Forms.
Computer generated substitute tax forms are not acceptable unless the computer generated format is approved (in advance of use) by the Manager of the Individual Income Tax Section.
3. For telephone information or assistance regarding Small Business Corporate income matters, call (501) 682-7284.
4. To expedite processing of the AR1100S, it is essential that the following items are completed:
 - A. Tax Year
 - B. Corporation name, address, city, state, Zip code
 - C. FEIN (Federal Identification Number)
 - D. Date of Incorporation
 - E. Business Code Number
 - F. Date began business in Arkansas
 - G. Filing Status (check only one box)
 - H. Type of corporation (check only one box)

Business and Incentive Tax Credits

1. Enterprise Zone Program.

Act 947 of 1993 authorizes sales /use tax refunds and income tax credits to businesses that embark on certified projects involving the construction of a new plant or facility, the expansion of an established plant or facility, or the replacement of production or processing equipment or support infrastructure.

Act 394 of 1995 amends the Enterprise Zone program to allow Research Development Testing Businesses that fall within SIC 8731 as an industry that may qualify for participation in the program.

Act 1250 of 1995 allows any industry that locates a facility at a municipal airport that qualifies as a special target applicant as eligible to apply for benefits regardless of whether the industry would otherwise qualify for the benefits of the Enterprise Zone Program.

Act 807 of 1997 amends the Enterprise Zone Act regarding qualifying businesses, decertification of a business, and the definitions of "new permanent employees" and "number of minimum new employees."

Act 1130 of 1999 amends the Enterprise Zone Act to add more eligible businesses including semiconductor manufacturers, computer businesses, motor picture production companies, biological research companies, corporate headquarters and trucking terminals. The maximum income tax credit per net new employee is increased from \$2,000 to \$3,000 but may be increased to \$6,000 per employee in high unemployment areas.

2. Youth Apprenticeship and Youth Apprenticeship/Work-Based Learning Program.

Acts 1103 of 1995 and 1168 of 1997 provide for an income tax credit of up to \$2,000 for each qualified youth apprentice or ten percent (10%) of the wages earned by the youth apprentice, whichever is less.

3. Economic Development Credit and Economic Development Incentive Program.

Act 851 of 1993 as amended by Acts 590 and 820 of 1995, Act 831 of 1995 and Act 807 of 1997, authorizes the Arkansas Department of Economic Development (ADEED) to negotiate proposals, on behalf of the State, with prospective businesses which are considering locating a new facility or expanding an existing facility in Arkansas.

Acts 575 and 584 of 1999 add new businesses that are eligible for benefits, including computer and motion picture companies, electronic manufacturers, office sector business and corporate headquarters.

4. Biotechnology Development Credit. Act 1117 of 1997 provides income tax credits for the development of biotechnology in Arkansas.

Act 1367 of 1999 amends the Biotechnology Development and Training Act to provide an income tax credit for an Arkansas taxpayer engaged in the business of producing advanced biofuels (ethanol, methanol or their derivatives) through biological means other than crop fermentation. The credit is equal to 30% of the cost of buildings, equipment, and licensing fees. The credit is applicable to the first \$50,000 in income tax liability plus 50% of the remaining tax liability per year. Unused credit may be carried forward for nine years. ADEED is to certify the taxpayer as engaged in the biofuel business.

5. The Arkansas Emerging Energy Technology Development Act

Act 976 of 1999 establishes an income tax credit up to 50% of the amount spent during the taxable year to purchase or construct a facility that designs, develops or produces photovoltaic devices, electric vehicle equipment or fuel cells. The credit may be used against all income tax liability for the year and unused credits can be carried forward for six years. A credit cannot be used for any facility or equipment which was in use on or before January 1, 2000. The taxpayer must be approved by the ADEED. No minimum investment is required and the taxpayer is not required to hire a minimum number of employees. Effective date 1-1-00.

6. Income Tax Credit for Companies that offer Reimbursement Programs for Employees

Act 1036 of 1999 allows an income tax credit equal to 30% of tuition, books, and fees reimbursed to full time employees enrolled in undergraduate or post-graduate education from accredited institutions located in Arkansas. Credit cannot exceed 25% of business' income tax liability. Effective for courses taken after July 30, 1999.

7. Workforce Training Act

Act 1134 of 1999 amends the Workforce Training Act to permit an income tax credit based on a portion of the cost of workforce training. The credit may be the lesser of 50% of the costs or a specified hourly training cost. The total amount of credits that may be granted to all companies in a single year is \$450,000. Effective date 1-1-00.

8. Arkansas Tourism Development Act

Act 1135 of 1999 transfers the administration of the Arkansas Tourism Development program to the ADEED and expands the benefits to include lodging facilities. The act also provides an income tax credit of up to \$3,000 per net new employee (\$6,000 for high unemployment areas).

9. The Family Savings Initiative Act (Act 1217 of 1999)

Under this act, the Department of Human Services will provide grants to approved non-profit organizations to establish savings accounts for individuals with income of 185% or less of federal poverty guidelines. DHS will match those funds added to the account by the individuals. An income tax credit is available to those who make contributions to the non-profit organization equal to 50% of the contribution, with a maximum of \$25,000. The total annual credit that may be claimed by every contributor during a year is \$100,000. Unused credits may be carried forward for three years.

10. Arkansas Public Roads Improvements Credit Act

Act 1347 of 1999 authorizes an income tax credit for tax years 1999 and later for 33 1/3% of the taxpayer's contributions to the Public Roads Incentive Fund. This fund is administered by the ADEED. The credit may be taken against up to 50% of the taxpayer's income tax liability and unused credit may be carried forward for three years. Effective July 1, 1999.

NOTE: For details on each of these tax credits, please refer to the Business and Incentive Tax Credit Package which contains forms required for each credit administered by the Division. Business Tax Credit forms may be obtained from the: Department of Finance and Administration. Tax Credits Section, P. O. Box 1272, Room 203 Little Rock. Arkansas 72203, telephone number (501) 682-7106..



STATE OF ARKANSAS

Domestic or Foreign Corporation Income Tax-Subchapter S

GENERAL INSTRUCTIONS

The instruction numbers correspond with the item numbers on the return. Unnumbered instructions give general information.

WHO MUST FILE

Every corporation organized or registered under the laws of this state, or having income from Arkansas sources as defined in Arkansas Code Section 26-51-201 (with the exception of those corporations exempted by Arkansas Code Section 26-51-303) must file an income tax return. Consolidated returns are permitted under certain conditions. D.I.S.C. and F.S.C. Corporations should use Form AR1100CT. Corporations must file Form AR1100S if: (a) you elected, by filing Form AR1103, to be taxed as an S Corporation within seventy-five (75) days of incorporation, (b) the State of Arkansas accepted your election, and (c) the election remains in effect. Federal Schedules are accepted. Life insurance companies who pay a premium tax as provided by law are exempt from filing.

TIME AND PLACE FOR FILING

Form AR1100S is due on or before the 15th day of the 5th month following the close of the Corporation's tax year. Forms must be filed with the Department of Finance and Administration, Individual Income Tax / S Corp, P.O. Box 3628, Little Rock, Arkansas 72203-3628.

EXTENSIONS OF TIME FOR FILING

If you have received an automatic Federal extension (Form 7004), the time for your Arkansas S Corporation Income Tax Return, shall be extended until the date of your Federal Tax Return. For any extension beyond, or in lieu of the Federal, you must make a written application on or before the due date of your Arkansas Return. Application should be made on Form AR1055.

PERIOD COVERED/ACCOUNTING METHOD

A corporation must calculate its Arkansas taxable income using the same income year and/or accounting method for Arkansas tax purposes as used for Federal income tax purposes. For tax years beginning after 1986 all S Corporations are required to have a permitted tax year. A permitted tax year is a tax year ending December 31, or any other tax year for which the S Corporation establishes a business purpose.

Application for changes shall be made and forwarded to the Department of Finance and Administration, Individual Income Tax Manager, at least 60 days before the close of the proposed or new taxable year or period and/or accounting method. Corporations must provide to the Commissioner a copy of any certification or approval from the Internal Revenue Service authorizing the corporation to change its accounting method or income year.

When the Commissioner of Revenue approves a change in the accounting period, the net income computed on the separate return for a fractional part of a year shall be placed on an annual basis by multiplying the amount there by twelve and dividing the number of months included in the period, and the tax shall be such part of the tax computed on such annual basis as the number of months in such periods is of twelve months.

SIGNATURES AND VERIFICATION

The return shall be certified to by the President, Vice-President, Treasurer, or other principal officer. The return of a foreign corporation having an agent in the state may be certified to by such agent. If receiver, trustees in bankruptcy, or assignees are operating the property or business of the corporation, such receiver, trustee, or assignees shall execute the return for such corporation under certification.

REPORT OF CHANGE IN FEDERAL TAXABLE INCOME

Revenue Agents Reports (RAR's) must be reported to this state within 30 days after the receipt of the RAR or supplemental report reflecting correct net income of taxpayer. Amended returns must be filed with payment of any additional tax due. Statute of Limitations will remain open for eight (8) years if taxpayer fails to disclose Federal Revenue Agents Reports.

PENALTIES

Willful failure to pay or file a return required under any state tax law is guilty of a Class A Misdemeanor. An additional penalty of \$500.00 will be assessed if any taxpayer files what purports to be a return, but does not contain information on which substantial correctness may be judged and such conduct is due to a position which involves or impedes the administration of any tax law.

LIABILITY FOR FILING RETURNS

A corporation subject to the provisions of the Income Tax Act of 1929, regardless of the amount of its net income, is required to file a return.

BALANCE SHEETS

The balance sheets submitted with the return should be prepared from the books and should agree therewith, or any differences should be reconciled. All corporations engaged in an interstate and intrastate trade or business and reporting to the Interstate Commerce Commission and to any national, state, municipal or other public office may submit copies of their balance sheets prescribed by said Commission, or state and municipal authorities, as of the beginning and end of the taxable year.

In case the balance sheet as of the beginning of the current taxable year does not agree in every respect with the balance sheet which was submitted as of the end of the previous taxable year the difference should be fully explained.

TYPE RETURN

If the S Corporation is filing an initial (first time filing) or an Amended Return (making changes to an original return) or a Final Return (going out of business), clearly mark the return and check the applicable box at the top of the form.

INCOME

CAUTION: Report only trade or business activity income or loss on Lines 6 through 11. Do not report rental activity or portfolio income

or loss on these lines. Report the Arkansas portion of rental income and expenses and portfolio income and expenses distributable to each shareholder on Federal Schedule K.

GROSS SALES

If engaged in trading or manufacturing, enter as item 6 on page 1 of return, the gross receipts, less goods returned and any allowances or discounts from the sales price.

COST OF GOODS SOLD

Enter as item 7 the cost of goods sold, submit schedule and explain fully the method used.

If the production, purchase, or sale of merchandise is an income producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at the lower of cost or market. Explain fully the method used. In case the inventories reported on the return do not agree with those shown on the balance sheet, attach a statement explaining how the difference occurred.

Balance sheets as of the beginning and close of the year and a reconciliation of surplus must be attached to the return.

GROSS PROFITS

Enter as item 8 the gross profit which is obtained by deducting item 7, the cost of goods sold as extended from item 6, the gross sales.

NET GAIN OR (LOSS) FROM FORM 4797

Enter as item 9 gains or losses from the sale, exchange, or involuntary conversion of assets used in trade or business activity. If the corporation is also a partner in a partnership include as partnership share of gains (losses) from sales, exchanges, or involuntary or compulsory (other than casualties or thefts) of the partnership's trade or business assets. Do not include any recapture of expenses deduction for recovery property (Federal Code Section 179).

OTHER INCOME

Enter as Line 10 any other taxable trade or business income not listed above and explain its nature on an attached schedule.

TOTAL INCOME

Enter as item 11 the total of Lines 8 through 10.

DEDUCTIONS

CAUTION: Report only trade or business activity related expenses on lines 12 through 24. Do not report rental activity expenses or expenses related to any portfolio income on these lines. Report the Arkansas rental activity income and expenses and portfolio income and expenses distributable to each shareholder on Federal Schedule K.

COMPENSATION OF OFFICERS

Enter as item 12 the compensation of officers in whatever form paid.

SALARIES AND WAGES

Enter as item 13 the amount of salaries and wages (other than wages and salaries deducted elsewhere on your return) paid or incurred for the tax year. Do not reduce this figure by Federal jobs credit.

REPAIRS

Enter as item 14 the cost of incidental repairs related to any trade or business activity.

BAD DEBTS

Enter as item 15 the amount of bad debt incurred during the year. The S Corporation can only use the specific charge-off method for figuring its bad debt deduction.

RENT

Enter as item 16 rent paid for trade or business property in which the S Corporation has no equity.

TAXES

Enter as item 17 taxes paid or accrued during the taxable year. Do not include Arkansas income taxes or Federal income taxes or taxes assessed against local benefits tending to increase the value of the property.

INTEREST

Enter as item 18 only interest incurred in the trade or business activity(ies) of the corporation that is not reported elsewhere on the return. Do not include interest expense related to rental activity, portfolio, or investment income.

DEPRECIATION

Enter as item 19 depreciation expense from Federal Form 4562. Do not include any expense for recovery property (Section 179) on this Line.

DEPLETION

Enter as item 20 depletion expense from Federal Form 4562. Do not include any depletion deduction for oil and gas properties on this line.

OTHER DEDUCTIONS

Enter as item 24 any other authorized deductions related to any trade or business activity for which there is no line on page 1 of this form.

EXCESS NET PASSIVE INCOME TAX

Enter as item 27 the amount of excess net passive income tax due. If the corporation has always been a Subchapter S Corporation, the Line 27 tax does not apply to the corporation. If the corporation has Subchapter C earnings and profits at the close of the tax year, has passive investment income that is in excess of 25% of gross receipts, and has taxable income at year end, the corporation must pay a tax on the excess passive income. Complete Lines 1 through 3 and Line 9 of the worksheet below to make this determination. If Line 2 is greater than Line 3 and the corporation has taxable income it must pay the tax. Complete a separate schedule using the format of Lines 1 through 11 of the worksheet to figure the tax.

WORKSHEET

1. Enter Arkansas gross receipts tax for the tax year (see IRC Section 1362 (d)(3)(C) for gross receipts from the sale of capital assets)* _____
2. Enter Arkansas passive investment income as defined in IRC* Section 1362 (d)(3)(D) . _____
3. Enter 25% of Line 1 (if Line 2 is less than Line 3, stop here. You are not liable for this tax) _____
4. Excess Arkansas passive investment income. Subtract Line 3 from Line 2. _____
5. Enter Arkansas expenses directly connected with the production of income on Line 2 (see IRC* Section 1375(b)(2) _____
6. Net passive income - Subtract Line 5 from Line 2. _____
7. Divide amount on Line 4 by amount on Line 2. _____
8. Excess net passive income - Multiply Line 6 by Line 7. _____
9. Enter taxable income (see instructions for taxable income below). _____
10. Enter smaller of Line 8 or 9. _____
11. Excess net passive income tax - Enter 6.5% of Line 10. Enter here and on Line 29, page 1, Form AR1100S. ... _____

*Income and expenses on Line 1, 2, and 5 are from total Arkansas operations for the tax year. This includes applicable income and expenses from page 1, Form AR1100S, as well as those that are reported separately on Schedule K. See IRC Section 1375(b)(4) for exceptions regarding Lines 2 and 5.

TAXABLE INCOME (LINE 9 OF THE WORKSHEET)

Line 9 income is defined in IRC Section 1374 (d). You figure this income by completing Lines 1 through 32 of Form AR1100CT Arkansas Corporation Income Tax Return. Include the Form AR1100 computation with the worksheet computation you attached to Form AR1100S. You do not have to attach the schedules etc. called for on Form AR1100CT. However you may want to complete certain schedules such as Federal Schedule D., Form AR1100S.

TAX FROM SCHEDULE D (Form AR1100S)

Enter as item 28 the tax from page 2, Schedule D, Form AR1100S. If net capital gain for Arkansas is \$25,000 or less, the corporation is not liable for capital gains tax. If the net capital gain is more than \$25,000 you must determine if the corporation owes the tax in part A, or part B of Schedule D, Form AR1100S.

Part A - Capital gains tax computation

If the corporation made its election to be an S Corporation before 1987 IRC Section 1374 (as in effect before the enactment of the Tax Reform Act of 1986) continues to impose a tax on certain gains of the S Corporation. Consult the IRS instructions to determine if you are liable for this tax. If so complete Part A, Schedule D, Form AR1100S.

Part B - Built-in gains tax computation

If the corporation made its election to be an S Corporation after December 31, 1986, IRC Section 1374 provides for a tax on built-in gains that applies to certain S Corporations. Consult the IRS instructions to determine if you are liable for this tax. If so, complete Part B, Schedule D, Form AR1100S.

Payments

Enter as item 30 payments you made on a 1998 Declaration of Estimated Income Tax.

Filing Declaration of Estimated Income Tax

Who must file. Every taxpayer who can reasonably expect to owe an Arkansas income tax in excess of \$1,000.00 must make an estimate and pay in equal installments tax due thereon. The declaration shall be filed with the Commissioner of Revenue on or before the fifteenth (15th) day of the fifth (5th) month of the income year of taxpayer. Taxpayers whose income from farming for the income year can reasonably be expected to amount to at least two-thirds (2/3) of the total gross income from all sources for the income year, may file such declaration and pay the estimated tax or before the fifteenth (15th) day of the second (2nd) month after the close of the income year or in lieu of filing any declaration, may file an income tax return and pay the tax on or before the fifteenth (15th) day of the (3rd) month after the close of the income year.

Payment of Taxes

The tax should be paid by attaching to the return a check or money order payable to the order of "Department of Finance and Administration."

WORKSHEET FOR APPORTIONMENT OF MULTIPLE CORPORATION

For corporations with income from sources within and outside the State:

In general, taxpayers with income derived from activities both within and outside the State (Public Utilities excepted) are required to allocate and apportion the net income under the following provision:

Business and non-business income defined - Article IV 1 (A) defines "Business Income" as income arising from transactions and activities in the regular course of taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's trade or business operation. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. Income of any type or class and from any source is business income if it arises from transactions and activities occurring in the regular course of a trade or business. In general all transactions and activities of the taxpayer which are dependent upon, or contribute to, the operations of the taxpayer's economic enterprise as a whole constitute the taxpayer's trade or business and will be considered "Business Income" unless otherwise excluded by statute.

Business income is to be apportioned to this state by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus two (2) times the sales factor, and the denominator of which is four (4).

The average value of property owned by the taxpayer means the average of the original cost of the property at the beginning and ending of the tax period.

Property rented by the taxpayer is valued at eight times the net annual rental rate.

Tangible personal property includes inventories.

The payroll factor is a fraction, the numerator of which is the total amount paid in this state during the tax period by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the tax period.

Compensation is paid in this state if: (a) the individual's service is performed entirely within the state or, (b) the individual's service is performed both within and outside the state, but the service performed outside the state is incidental to the individual's service within the state or (c) some of the service is performed in the state and (1) the base of operations, or if there is no base of operations the place from which the service directed or controlled is in the State or (2) the base of operations or the place from which the service directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in the state.

The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this state during the tax period and the denominator of which is the total sales of the taxpayer everywhere during the tax period. The sales factor is then doubled.

Sales of tangible personal property are in this state if: (a) the property is delivered or shipped to a purchaser, other than the United States Government, within this State regardless of the f.o.b. point or other conditions of the sale or (b) the property is shipped from an office, store, warehouse, factory, or other place of storage in this State and (1) the purchaser is the United States Government or (2) the tax payer is not taxed in the State of the purchaser.

Sales, other than sales of tangible personal property, are in this State if: (a) the income producing activity is performed both within and without the State in which event the income allocable to this State shall be the percentage that is used in the formula for apportioning business income to this State.

The following items of income to the extent that they do not constitute business income are to be allocated to this state:

1. Net rents and royalties from real property located in the state.
2. Net rents and royalties from tangible personal property; (a) if and to the extent that the property is used in this state; or (2) in their entirety if the commercial domicile is in the state and the taxpayer is not organized under the laws of or taxed in the state in which the property is utilized.

The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is

unknown or unascertainable by the taxpayer tangible personal property is utilized in the state in which the property was located at the time the rental or royalty obtained possession.

3. Gains and losses from sales of assets;
 - a. Sales of real property located in the state.
 - b. Sales of tangible personal property
 - (1) The property had a situs in this state at the time of sale, or
 - (2) The taxpayers commercial domicile is in this state, or
 - (3) The property has been included in depreciation which has been allocated to this state, in which event gains or losses on sales shall be allocated on the percentage that is used in the formula for allocating income to the state.
 - c. Sales of intangible personal property if the taxpayer's commercial domiciles in this state.
4. Interest and dividends if the taxpayer's commercial domicile is in the state.
5. Patent and copyright royalties. If and to the extent that the patent or copyright is utilized by the taxpayers in this state, or if and to the extent that the patent or copyright is utilized by the taxpayer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this state.

A copyright is utilized in a state to the extent that printing or other publication originates in the state. If the basis of receipts from copyright royalties does not permit allocation to the states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

Prior approval is required before deviation from the allocation and apportionment method.

If the allocated and apportionment provisions as set out above do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Director of Revenue, Department of Finance and Administration may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

1. separate accounting;
2. the exclusion of any one or more of the factors;
3. the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state; or
4. the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.